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The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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NO. 99-0590-3

INDEPENDENT STATE AUDITOR'S REPORT
ON THE ACTIVITIES OF THE
BERKSHIRE COUNTY REGIONAL HOUSING AUTHORITY

JULY 1, 1997 TO MARCH 31, 1999

OFFICIAL AUDIT REPORT

DEC - 7 1999

ISSUED BY THE
Department of the State Auditor

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AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Berkshire County Regional Housing Authority (BCRHA) for the period July 1, 1997 to March 31, 1999. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to assess compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD's procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.

- Operating reserve accounts to verify that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Development and modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 97-0590-3).

Based on our review we concluded that, except for the issue addressed in the Audit Results section of this report, during the 21-month period ended March 31, 1999, BCRHA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

Status of Prior Audit Results

Our prior audit report (No. 97-0590-3) indicated that the Berkshire County Regional Housing Authority (BCRHA) needed to repay \$63,000 to the Department of Housing and Community Development (DHCD) for the unauthorized transfer and use of development funds. As of March 31, 1997, BCRHA owed \$48,000 to the 667-1 Hinsdale Development Program and \$15,000 to the 667-2 Sheffield Development Program. Our prior audit recommended that BCRHA continue its efforts to secure additional funding and program opportunities. We asked DHCD to monitor BCRHA's efforts in order to ensure the eventual repayment of \$63,000 to the 667-1 and 667-2 development programs. In response to our prior report, BCRHA's Executive Director responded as follows:

BCRHA will continue to work closely with DHCD in an effort to reduce and ultimately extinguish the debt created by the transfer and use of development funds in 1990. Over the last several years, BCRHA has achieved a desirable level of stability. This stability has been achieved through the effective management of resources and the continued development of a diverse programming and funding base. Although BCRHA has developed and administers a number of successful programs, it would be inappropriate to allocate funding from any of these sources, to the 1990 debt. Most of these programs are break even programs and are not funded to generate income. It is therefore important that BCRHA and DHCD work cooperatively to develop realistic solutions to resolve this issue. One such option may be an agreement by DHCD to write off the debt.

It is also important to put the aforementioned debt in context to the current overall effective administration of BCRHA. The debt was created over seven years ago under the leadership of a previous Executive Director and Chairperson. The debt has not grown since its discovery in 1990. Under the leadership of the current Board and Executive Director all programs are now run in an efficient and appropriate manner. On an annual basis, these important programs serve hundreds of needy Berkshire County households.

Despite assurance from BCRHA that it would work closely with DHCD to reduce and ultimately extinguish the debt incurred by these prior inappropriate transactions and come to final resolution on this issue, we found that BCRHA still needed to repay \$63,000 for the unauthorized transfer and use of development funds. BCRHA's fee accountant stated that BCRHA was trying to get an exemption from DHCD to write off this debt but could not provide documentation to substantiate this claim.

Our prior audit report also revealed that BCRHA had nine development programs for which financial records were being maintained that needed to be closed out by DHCD. Four of these programs were

completed, while five programs were terminated by DHCD because of fiscal constraints. Our follow-up review found that, as of March 31, 1999, BCRHA still had not gained proper authorization from DHCD to finalize all of these nine programs, as listed below:

<u>Program Completed</u>	<u>Location</u>	<u>Date Completed</u>	<u>Costs Incurred</u>
667-2	Sheffield	May 1991	\$1,605,676
689-2	Great Barrington	May 1991	141,387
689-6	Lee	September 1995	551,444
705-2	Sheffield	December 1994	<u>882,492</u>
Total Costs			<u>\$3,180,999</u>
<u>Program Terminated</u>	<u>Location</u>	<u>Date Closed</u>	<u>Costs Incurred</u>
667-1	Hinsdale	December 1989	\$ 38,279
689-3	Pittsfield	December 1992	3,702
689-4	Adams	December 1992	94,903
705-3	Egremont	December 1992	8,382
705-4	Becket	December 1991	<u>101,581</u>
Total Costs			<u>\$246,847</u>

We determined that, until these nine development programs are closed, BCRHA will continue to unnecessarily maintain financial records for the programs. BCRHA also cannot properly report its overall consolidated operations of its state programs reflecting the liabilities incurred in prior years on these development projects.

In response to the prior audit report, the Executive Director stated that the 667-2 and 689-2 Development Programs had septic problems that needed to be addressed before those programs could be closed out. However, in 1997 these septic problems were taken care of at a cost of \$93,900, yet the programs still remain open. The Executive Director contacted DHCD on June 9, 1998 requesting assistance in closing out the development programs but did not receive a response. In response to our continued audit results on this matter, BCRHA officials have proposed an updated corrective action plan to reduce and eventually eliminate the \$63,000 deficit incurred from prior-year operations. This proposal would require a short-term series of financial and accounting transactions being enacted that would

reduce BCRHA's deficit by \$29,437. The final disposition of the \$33,563 balance would then have to be resolved in concert with DHCD.

Recommendation: BCRHA and DHCD should meet to resolve this longstanding issue. Immediate resolution of this matter is in the best interest of DHCD, BCRHA, the taxpayers of the Commonwealth, and the client population of Berkshire County that BCRHA serves.

Auditee's Response:

BCRHA continues to work with DHCD to reduce and ultimately eliminate the debt created by the transfer and use of development funds in 1990. . . . Through effective management and the successful development and implementation of a wide range of programs and services, BCRHA has evolved into a stable, highly regarded, and valuable community resource, serving over 1,400 households annually. As set forth above, BCRHA has not produced a deficit (or debt) in any of its programs since the aforementioned 1990 debt.

BCRHA inability to achieve the important, yet difficult goal of completely extinguishing the 1990 debt should not be confused with lack of diligence, desire, and effort. Rather, any perceived failures should be interpreted for what they truly represent: BCRHA's practical and very real constraints regarding re-payment.

BCRHA is fully committed to closing-out any and all dormant development projects. Unfortunately, BCRHA can not close projects unilaterally. BCRHA is required to wait for DHCD to complete its lengthy closure process.

On November 8, 1999, representatives of the Office of the State Auditor, DHCD, and BCRHA met to discuss the resolution of this issue.

SIL TJW

99-0590-3

BERKSHIRE COUNTY REGIONAL HOUSING AUTHORITY

I. AUDITEE (12 REPORTS)

Brad Gordon, Executive Director, Berkshire County Regional Housing Authority, 150 North Street, Pittsfield, MA 01201

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Richard Grillon, Washington Mtn. Road, Washington, MA 01223

Andrew Hochberg, 184 North Street, Pittsfield, MA 01201

Jonathan Nix, Carter Road, Becket, MA 01223

James Pasquini, Furnace Hill, Cheshire, MA 01225

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Lisa Sloane, 160 Orchard Street, Lee, MA 01238

Richard Doak, 93 Roselyn Drive, Pittsfield, MA 01201

Donald L. Massery, Sr., 174 Dan Casey Memorial Blvd., Pittsfield, MA 01201

II. OVERSIGHT (1 REPORT)

Jane Wallis Gumble, Director, Department of Housing & Community Development, One Congress Street, 10th Floor, Boston, MA 02114

III. OTHER (1 REPORT)

National Association of Housing & Redevelopment Officials, Massachusetts Chapter, 11 Beacon Street, Suite 722, Boston, MA 02108, ATTN: Thomas Connolly, Executive Director

IV. AUDIT REQUESTS (14 REPORTS)

Attorney General's Office, 1 Ashburton Place, Boston, MA 02108-1698, ATTN: Gerard Leone, Chief, Criminal Bureau

Attorney General's Office, 1 Ashburton Place, Boston, MA 02108-1698, ATTN: Alice Moore, Chief, Government Bureau

Fiscal Affairs Division, State House, Room 272, Boston, MA 02133, ATTN: Michael Higgins, Operations Supervisor

Governor's Office, State House, Room 360, Boston, MA 02133, ATTN: Christina Campbell, Office Administration

House Post Audit and Oversight Committee, State House, Room 146, Boston, MA 02133, ATTN: Thomas W. Hammond, Director

House Ways & Means Committee, State House, Room 251, Boston, MA 02133, ATTN: Paul Romary, Budget Director

Office of the Comptroller, One Ashburton Place, 9th Floor, Boston, MA 02108, ATTN: Martin Benison, Comptroller

Operational Services Division, Bureau of Audit, 1 Ashburton Place, Room 1017, Boston, MA 02108, ATTN: Kent Barkhouse, Director of Audit

Senate Post Audit & Oversight Committee, State House, Room 312D, Boston, MA 02133, ATTN: Joel Barrera, Director, Post Audit & Oversight Bureau

Senate Ways & Means Committee, State House, Room 212, Boston, MA 02133, ATTN: Joe Doherty, Budget Director

State Library of Massachusetts, State House, Room 442, Boston, MA 02133, ATTN: Bette L. Siegel, Documents Librarian (3 Copies)

State Treasurer's Office, Cash Management Department, 1 Ashburton Place, 12th Floor, Boston, MA 02108-1608, Elizabeth A. Pearce, Deputy Treasurer

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